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LET'S LOOK AT NEW MARKETING PROGRAMS FOR THE LONGER RUN

Milk Supply: Dairy Product Disposition: Next 10 Years

To get a quick handle on what will describe milk supply and milk consumption in this next decade, three primary facts have to be recognized --

1. In the longer run, such as 10 years, total milk production is highly dependent upon the demand for milk and dairy products. Another way of saying that is that demand creates its own supply.

2. Second, the level of milk prices, and all of the things that go into it including the parity/price support factor, is the basic supply adjuster. Therefore, price must adjust supply as directed by demand.

3. Finally, demand is the product of two factors -- population and per capita consumption. Our U.S. population today is 227 million people. It is increasing about 1 percent per year; and in 10 years, we should be looking at a market of 245 million consumers. That is the good news.

The bad news isn't necessarily bad news -- but it is much more uncertain -- and that is per capita consumption. Let's consider different elements of the situation.

- a. Per capita consumption on a milk equivalent basis in 1980 was 554 pounds; the commercial or hard demand component of that was 521 pounds. The 33 pound difference is explained

by USDA donations (13 lbs.), school lunch/school milk (16 lbs.) and milk consumed on farms (5 lbs.). All of these consumption numbers have been relatively constant in this past decade.

b. The 1980 Census found almost 5 million more people in the U.S. than previously had been estimated. This means that at the present time, the USDA is revising all per capita consumption data, and we soon will see the new numbers. My guess is that per capita consumption and the commercial component of that will each drop by 12 pounds -- to 542 and 509 pounds respectively. And that changes our base downward for the next decade.

c. Another factor looming larger in the picture is imitation cheese. In 1980, 26 1/2 percent of our milk supply was utilized for hard cheese, and commercial demand for hard cheese was a record 17.3 pounds per capita. But also in 1980, imitation cheese gained a 5 percent share of the total cheese market, including a one-third share of the mozzarella market. Maybe the biggest question in front of the milk industry today is how far imitation cheese will go as a substitute in the cheese market in these next several years.

d. There are other uncertainties. In the recent price support analysis that several of us prepared for GL-SM, Dale Carley projected per capita consumption increases of 1.2 to 1.5 pounds annually for the next several years. But these projections were based on market behavior in the 1970's. There are question marks. The aging or so-called "graying

of America" is one. The changing ethnic distribution, lagging unemployment, and continued pushes on imitations are among the others.

You can finally make your own guesses on per capita consumption. Last year, Hoard's Dairyman asked me to come up with an estimate for 1990, and I suggested 525 pounds. That will be close enough to give us a reasonable picture of the next 10 years.

Five factors worth noting:

1. A population of 245 million and a per capita consumption of 525 pounds means a total demand of 128.6 billion pounds of milk. And if demand creates its supply, we can expect U.S. milk production to be at about that level. That is about the same amount of milk that was produced in the U.S. in 1980, and 3 or 4 billion pounds less than is being produced in 1981.

2. If average production per cow reaches a very attainable 14,000 pounds in the next 10 years, then we will need 9.2 million cows in the national dairy herd in 1990, 16 percent fewer than we have at present.

3. And if the average size dairy herd 10 years from now is 80 cows in milk, up from about 60 cows at present, then we will be looking at a U.S. dairy industry of 115,000 commercial dairy farms. That is down about one-third from present numbers.

4. No major changes loom in the way milk is utilized, apart from the imitation cheese question. We will still be

looking at 40 percent of the milk supply going for fluid use, close to 30 percent for cheese, 15 percent for butter-powder, and 10 percent for frozen dairy products. That doesn't mean that product type questions such as UHT milk, imitation cheese, reconstituted milk, and dairy food standards of identity generally won't be a big part of the current issues -- they will.

5. The several different institutions that have sat somewhere in between production and consumption in the milk industry will still be with us this next 10 years -- but maybe in different costumes. The institutions include the processing industry, Federal milk orders, price supports, and most important -- dairy cooperatives themselves.

Changes in the processing industry are already placing new challenges and new responsibilities on dairy cooperatives. The sale of Dannon yogurt by Beatrice; the end of natural cheese purchases by Borden; the building of new plants by Kroger; and the plant closings by large and small -- be it a Lawson or a Wilson -- send signals back to cooperatives in every instance.

I don't need to itemize the criticisms of and the alternatives to Federal orders and price supports. We have all heard them and will continue to hear them. To the extent that changes will occur in these institutions, the retreat of government will have to mean greater responsibility for dairy coops.

What becomes more pertinent is to consider what the changes in society and in the milk industry are going to mean to your cooperative and the family of dairy cooperatives as we look ahead.

There are two primary questions in front of you.

1. Who is going to be marketing milk ten years from now? That is not just raw bulk producer milk, but it is also dairy products in their final form. Will your cooperative have to take up any slack, and is it prepared to take up any slack in the marketing system? Are you ready to act, or will you have to react?

2. The second question concerns dairy price policy. What do you really want in terms of price support policy, or more specifically price stability, that the rest of society will accept? And further, how do you propose to go about getting it, or holding it?

Within the framework of those two questions, we can recognize some clear challenges that every viable dairy cooperative is going to have to face up to.

1. How can you make membership seem more valuable and more important to individual dairy farmers? How can you exclude benefits from non-members in a way that makes them feel it? And what are some of the new and better services that you should be implementing for members that you've been too busy to fuss with?

2. A second challenge is that of keeping cooperatives

working together. When competition is a fundamental instinct, and when larger organizations are tempted to assert their own will, it's going to be a bigger job than ever to speak with a single voice for the dairy industry.

3. A third challenge is that of per capita consumption. There aren't a whole lot of things that individual producers or individual cooperatives can do that will affect supply-demand relationships, but promotion of per capita consumption holds that potential. However, a lot of skepticism prevails. Continuing efforts directed at the questions of whether promotion pays off, and how promotion moneys are best spent are essential. The assessment of product promotion will always be foggy as compared to market share promotion.

The challenge list can get long -- adjusting to imitations, parity vs. cost of production, where and when to build plants to process what, efficiency in assembly and balancing and processing, making Federal orders work the way they're supposed to, equitable financing of your association, and on and on.

Finally, your new marketing programs will be born out of your objectives. You must remember your purposes, and to do that, you must know what they are in the first place. The classic objectives for dairy cooperatives include guaranteeing a market and guaranteeing payment, effective bargaining, market development, efficient marketing of milk, and assuring a high quality product for the market.

The decade of the 1980's will see your purposes challenged.

The questions and the challenges I have mentioned are only outside observations. Somehow it's always easier and more important to answer the day to day questions and to expedite monthly board meeting agendas. But growth and effectiveness and survival call for more than that in this next 10 years. Take a look at new marketing program ideas, and commit your cooperative to those ideas that have to be implemented.

